



COUNTER FRAUD
Services

Lincolnshire County Council Counter Fraud Progress Report

26 November 2018



What we do best

Innovative assurance services
Specialists at internal audit
Comprehensive risk management
Experts in countering fraud

..... And what sets us apart

Unrivalled best value to our customers
Existing strong regional public sector partnership
Auditors with the knowledge and expertise to get the job done
Already working extensively with the not-for-profit and third
sector



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The matters raised in this report are only those that came to our attention during the course of our work – there may be issues that we are not aware of because they did not form part of our work programme, were excluded from the scope of individual engagements or were not brought to our attention. The opinion is based solely on the work undertaken as part of the agreed counter fraud plan.



Key messages

Proactive work

1. We are making progress against our 2018/19 Counter Fraud Work Plan. Areas where particular headway has been made include:
 - The annual refresh of the Fraud Risk Register has been completed and presented to the Audit Committee. This is a key element in the Council's response to fraud and drives our activity in priority areas. The register is continually updated and this provides an accurate view of fraud risks at any time
 - We have delivered pro-active work in areas highlighted as priority fraud risks to the Council. These include:
 - School fraud – this work focused on building fraud awareness within schools and has been well received
 - Procurement fraud – this provided assurance over processes as we identified a high level of compliance and no evidence of fraud from our testing
 - We have commenced work to develop our knowledge and response to the Cyber Fraud threat. This is a rapidly growing and evolving area of risk and we are liaising closely with the Council's Information Assurance Manager to ensure our approach is robust and effective.
2. We recently submitted over 780,000 records to the Cabinet Office for the National Fraud Initiative 2018/19 exercise. This is a data

matching exercise that takes place every 2 years and is designed to identify fraud, error and overpayment.

3. The number of referrals received has risen sharply in the first half of 2018/19. This is partly due to effective and ongoing promotion of fraud awareness with stakeholders. The cases currently under investigation range from low level issues to more complex matters that require lengthy investigation. The Counter Fraud and Investigation Team recently recruited relief investigators to build capacity and help minimise the impact of investigations on delivery of our Counter Fraud plan.
4. The Lincolnshire Counter Fraud Partnership (LCFP) arrangements continue to support joint working to develop a strong, effective and sustained response to the threat of fraud across the county. The partnership arrangement enables a wide ranging approach to:
 - Address key fraud risks
 - Improve fraud intelligence
 - Co-ordinate targeted fraud awareness and campaigns
 - Share fraud intelligence, best practice and expertise
 - Deliver savings and make effective use of resources



Counter Fraud Progress Report

Investigations

5. We have received 13 suspected fraud referrals since April 2018:
 - 8 of these are current live cases
 - 5 cases have been closed during 2018/19 – preliminary enquiries were made in three of these cases and a further referral was addressed through management action. The remaining case was a bank mandate fraud attempt that was blocked – we valued the fraud stopped at £3.5k. This prompted the release of communications and guidance to ensure awareness of this type of fraud
 - A further 4 cases were brought forward from 2017/18 – 3 have now been closed

6. In the 2017/18 progress report (at this stage) we had received 6 referrals for investigation. This is a marked increase on last year and exceeds the total referrals received in 2017/18. Some of the cases received have been 'low level' and not required extensive investigation. However, the current live cases tend to be more complex and therefore, time consuming. Figure 1 shows a breakdown of referrals by type with Figure 2 included for comparison. The charts show that procurement fraud remains a prominent area although there has been a sharp rise in social care cases – time has been allocated in the 2018/19 Counter Fraud Work Plan to perform pro-active work in both areas.

7. The Council has a zero tolerance to approach to fraud – this is a key element in our Counter Fraud Policy. This means we treat all fraud referrals seriously and seek to apply maximum sanctions wherever

possible. From the referrals made in 2018/19 we have passed 1 case to Action Fraud and another 2 cases to Lincolnshire Police. We are working on another case with Legal Services Lincolnshire to secure recovery of funds lost through a fraud case.

Figure 1

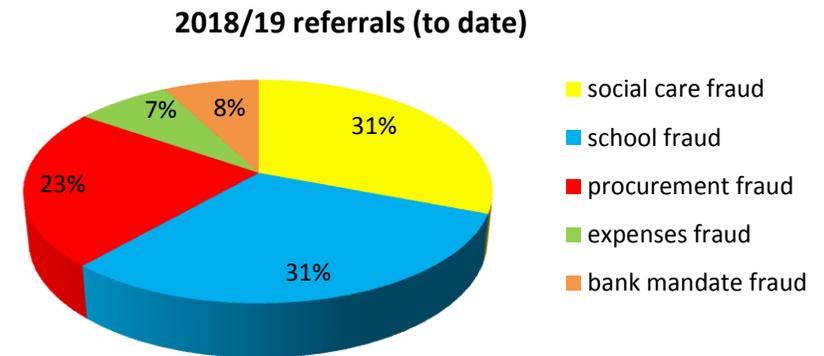
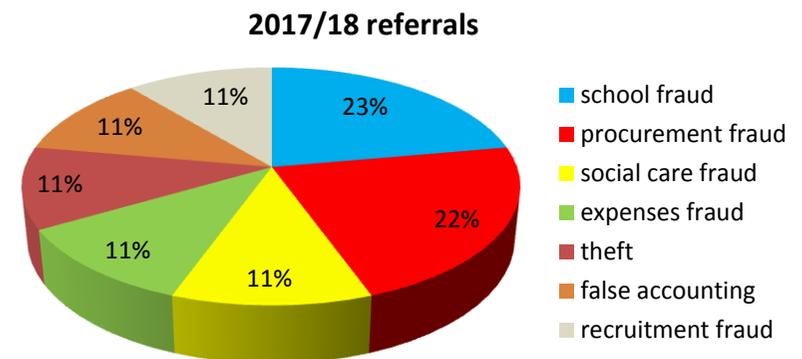


Figure 2





Counter Fraud Proactive Work

Fraud Awareness

8. Building understanding of fraud risks and indicators is a key factor in developing a counter fraud culture within local authorities. Improved knowledge and awareness of fraud and how to report concerns is vital in terms of prevention and detection. The increase in referrals made to us and the raised level of whistleblowing activity is evidence that our approach is effective.
- 9 Key areas of fraud awareness in 2018/19 are:
 - Continued promotion and roll out of the fraud awareness e-learning package. Levels of participation continue to be strong with over 1000 (approximately 10%) of employees completing the course
 - Following a recent campaign to raise fraud awareness in schools, we became aware of an increase in scams and fraud attempts targeting schools. We reacted promptly to liaise with Children's Services and finance teams to release communications advising action to be taken and encourage reporting of any issues identified
10. During the remainder of 2018/19 we will be refreshing our Counter Fraud promotional material – this includes leaflets and varied communications across social media channels to support the anti-fraud message.

National Fraud Initiative 2018/19

11. The Council is required to participate, along with other public bodies, in the National Fraud Initiative (NFI) exercise. In October 2018 we submitted records covering the following datasets:
 - Creditor data
 - Direct Payments data
 - Payroll data
 - Pensions data
 - Residential Care Home payment data
12. We have been very successful in our participation and analysis of data matches received from the NFI process – we have identified and secured recovery of over £248k in funds since 2006. We expect that we will make further recoveries from the 2018/19 exercise and will initially target those areas where we have had success previously in making recoveries.

Targeted Pro-active Exercises

13. We have completed a proactive exercise aimed at preventing and detecting procurement fraud. Our response to this type of fraud has previously centred around raising fraud awareness. However, in 2018/19 we identified a range of contracts from services across the Council and applied a series of counter fraud tests on procurement and contract management processes employed – the purpose being to assess compliance with the Council's Contract and Procedure Rules. The results identified were encouraging as our testing found



effective fraud prevention controls and strong contract arrangements in place.

Procurement fraud remains a high risk nationally to local authorities (the largest single area of fraud loss) and this was supported by our own risk assessment process. To ensure a continued and robust approach to this type of fraud we conduct reviews on an annual basis.

14. One of the key elements in the Local Government Fraud Strategy (Fighting Fraud and Corruption Locally) is that Councils must develop its use of information and technology to prevent and detect fraud. We have undertaken previous data analysis exercises aimed at specific areas and achieved great success with this – we found and instigated recovery of £1.6m in duplicate payments.

We have now enhanced our response in this area through use of the IDEA data analysis package and associated training in its use. We have commenced a programme of continuous fraud auditing involving analysis of transactional and standing data to identify outliers and longer term trends and patterns. The areas identified for initial review include:

- Payroll data
- Purchasing card transactions
- Declaration of interests

15. We continue to enhance our understanding of the cyber fraud threat. Intelligence suggests that cyber attacks are becoming larger, more sophisticated and more frequent. Cyber enabled fraud has

consequently evolved to become a lucrative option for criminals. Our initial response has been around raising awareness of the threat and we will continue to liaise with the Information Assurance Manager to form a joined up approach.

16. We have included time in our Counter Fraud Work Plan 2018/19 to undertake proactive work on Social Care fraud. This was identified as a priority area within our fraud risk assessment and we have noted an increase in referrals of this type. We plan to respond with work to target known areas of fraud including:

- Direct Payments
- Deprivation of capital
- Financial abuse

Lincolnshire Counter Fraud Partnership

17. The partnership continues to co-ordinate the response of Lincolnshire local authorities in tackling high-risk areas of fraud against the councils. The introduction of representatives from Lincolnshire Police and the Police and Crime Commissioner (PCC) to the group allowed a closer collaboration with local law enforcement agencies. All partners contribute to LCFP's funding.



18. Recent priority work includes:

- Fraud awareness:
 - Delivering free identity fraud training via Lincolnshire Police
 - Delivery of workshops with members and completion of the Fraud Awareness e-learning which continues to be well received – over 1000 (10%) LCC staff have now completed the training and a version tailored specifically for schools is also receiving positive feedback
- Regular liaison and sharing of information on scams, alerts and fraud cases
- Delivery of revenue savings – the Single Person Discount Managed Service Review is estimated to deliver additional net Council Tax revenue of £1.3m (3693 removals). Such schemes support increased Council Tax revenue collection through reduced fraud losses
- Sharing best practice e.g. pro-active work focusing on procurement fraud risks has been shared across the partners
- Provision of Fraud Health checks for partner members – providing assurance that counter fraud arrangements across Lincolnshire councils continue to improve
- Supporting pro-active Blue Badge reviews

19. Partnership priorities for the remainder of 2018/19 include:

- Development of a business case for dealing with Single Person Discounts which delivers additional financial benefits and a stronger response to Council Tax fraud and error. The proposal estimates that the revised arrangements will deliver additional revenue over a 5 year period of £10.5m (gross). This doubles the estimated value to be delivered under the current strategy
- Understanding the Cyber Fraud threat – this is a rapidly evolving risk where we wish to develop an effective response
- Refreshment of the Counter Fraud leaflet and promotional items. We will continue to use varied and extensive communication channels to promote fraud awareness to a wide audience





Investigations

20. The Council currently has 3 fraud cases with the Police:

- One relates to a case where a care provider has potentially acted fraudulently to incite others to defraud the Council. We are liaising with Lincolnshire Police on this matter
- We referred 2 cases involving misuse of a procurement card – combined value of these cases is around £2.7k

A further case was referred to Action Fraud (the national centre for fraud and cybercrime in the UK) involving a fraudulent attempt to secure a payment from a school. Scam correspondence is received by schools on a regular basis and these are often crude attempts. However, this case involved a clear and targeted effort to obtain substantial funds (£10k) from the school. The attempt failed due to internal controls in place, although we were able to secure evidence and have submitted details to Action Fraud for potential criminal investigation.

21. 13 suspected fraud referrals have been received since April 2018. Four of these cases were closed after preliminary enquiries had been made:

- Theft of monies within a school – the amounts involved were not substantial and it was not possible to identify a perpetrator. We reviewed the processes in place for cash collection and security and made recommendations to strengthen controls

- 3 cases related to scams or bank mandate fraud – these can be defined as attempts to secure payment by submitting false information to change bank supplier details. One of these cases involved a Council partner to whom regular and substantial payments are made. In view of the risks associated, we promptly issued guidance and communications to ensure continued awareness of this type of fraud with relevant stakeholders (Serco Masterdata Team and requisitioners).

22. We are currently working on 8 live fraud cases. In addition to the cases noted in paragraph 20, we are investigating:

- 2 direct payment frauds
- Deprivation of assets (failure to declare in financial assessment)
- Allegation of potentially fraudulent behaviour by a contractor
- Potential fraudulent expenses claims

23. During 2018/19 we have been able to secure recovery of £7,120. This relates to a case where payment was obtained for a care package for a service user. We liaised with Lincolnshire Police to secure payment through a restorative justice arrangement.

24. We are confident that we will soon make a substantial recovery (£39k) of funds relating to a case we dealt with in 2016/17. This resulted in a custodial sentence for the perpetrator and we have been liaising since with Lincolnshire Police and Legal Services Lincolnshire to secure payment.



25. We hope to secure repayment of overpaid pensions identified within the National Fraud Initiative 2016/17. These are sensitive and long running cases but there is potential scope to recover a further £17k. We will also receive the data matches from 2018/19 NFI process in January 2019 – in the past we have made recoveries and it is likely this exercise will be no different with further amounts expected to be recouped in 2018/19.

Progress against plan

26. The Counter Fraud Work Plan (pages 11 - 17) provides a summary on progress against planned work – much of this is ongoing but good progress is being made against many of the priority areas.

Other matters of interest

CIPFA Fraud and Corruption Tracker

27. We participated in the annual survey conducted by CIPFA. We provide data on our counter fraud activity and priorities on an annual basis and the report has recently been released. This identified that £302m in fraud was detected or prevented by councils in 2017/18. The number of cases reported increased to over 80,000 and a significant rise in serious and organised crime

cases was noted. We are currently comparing the survey results with our own records to identify common areas or patterns that may guide our response.

Fraud Risk Register

28. We completed the annual update of the Fraud Risk Register and presented the results to the Audit Committee in September 2018. There were no major changes in the appraisal of risk levels although we did introduce a new fraud risk within the register – Serious and Organised Crime. The assessment remains a vital tool in compiling accurate information and intelligence on each of our fraud risks.

Midlands Fraud Group

29. We lead the Midland Counties Fraud Group – this consists of Counter Fraud professionals from numerous councils across the Midlands region. We hosted the most recent meeting of the group in May 2018 – these meetings continue to be a valuable source of fraud intelligence and knowledge. Group members liaise regularly to discuss counter fraud issues and approach. We maintain a shared website that allows sharing of intelligence, case studies and best practice.



Counter Fraud Plan 2018/19

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Scheduling	Progress
CIPFA Code of Practice – Key Principle A : Acknowledge Responsibility				
A1 - Acknowledge the threat of fraud and corruption	<ul style="list-style-type: none"> Engagement and training Fraud awareness Website updates Response to the Home Office Report on Serious and Organised Crime Continued promotion of e-learning package (in conjunction with Lincolnshire Counter Fraud Partnership) 	Briefing sessions – training for members, management and staff (general and specific fraud areas).	Throughout 2018/19	Sessions being delivered throughout 2018/19
A2 - Acknowledge the importance of a culture that is resilient to the threats of fraud and corruption		Annual Plan for Counter Fraud activity to Audit Committee	Quarter 1 (2018/19) & Quarter 4 - March 2018 (19/20 Plan)	Report presented in Quarter 1
A3 - Governing Body acknowledges its responsibility for the management of its fraud and corruption risks		Continued development of fraud resilience through the Lincolnshire Counter Fraud Partnership (LCFP).	Throughout 2018/19	Ongoing throughout 2018/19
A4 - Governing Body sets a specific goal of ensuring and maintaining its resilience to fraud and corruption		Roll out of fraud e-learning module for members	Throughout 2018/19	Face to face training delivered to Audit Committee
		Updates, risks, results and information (various publications and channels)	Throughout 2018/19	Ongoing throughout 2018/19
	Response to Serious Organised Crime Pilot Project across Lincolnshire	Throughout 2018/19	Work ongoing through Crime Core Priority Group of Lincolnshire Community Safety Partnership	
40 Days (5%)				



Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Scheduling	Progress
CIPFA Code of Practice – Key Principle B : Identify Risks				
<p>B1 - Fraud risks are routinely considered as part of risk management arrangements</p> <p>B2 - The organisation identifies the risks of fraud and corruption</p> <p>B3 - The organisation publishes estimates of fraud loss to aid evaluation of fraud risk exposures</p> <p>B4 – The organisation evaluates the harm to its aims and objectives</p>	<ul style="list-style-type: none"> • Research and intelligence gathering to highlight emerging risks • Benchmarking activity • Update fraud risk profile • Analysis and publication of fraud losses 	<p>Participation in Midlands Fraud Group, work with FFCL Board (Fighting Fraud & Corruption Locally), CIPFA Counter Fraud Centre, follow up of NAFN alerts and horizon scanning for relevant legislative changes</p> <p>Review and update of the Council's Fraud Risk register.</p> <p>Participation in CIPFA Fraud and Corruption Tracker (CFaCT) Annual Survey</p> <p>Annual and progress reports of counter fraud activity to Audit Committee</p> <p>Data analysis & risk assessment: <ul style="list-style-type: none"> • for counter fraud proactive exercises • to support key control and continuous testing </p>	<p>Throughout 2018/19</p> <p>Quarters 2 & 3</p> <p>Quarter 1 (June submission)</p> <p>Quarter 1 (for June 2018) Quarter 3 (for January 2019)</p> <p>Throughout 2018/19</p>	<p>Quarter 1 & 2:</p> <ul style="list-style-type: none"> • MFG meeting hosted • Continued work with FFCL Board • NAFN alerts issued <p>Presented to Audit Committee – Quarter 2</p> <p>Submitted – Quarter 1</p> <p>Reports presented as required</p> <p>Ongoing during 2018/19</p>
35 Days (4%)				



Counter Fraud Plan 2018/19

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Scheduling	Progress
and intelligence analysis <ul style="list-style-type: none"> Implementing effective whistleblowing arrangements Investigating fraud referrals Applying sanctions and seeking redress 				
30 Days (4%)				

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Scheduling	Progress
CIPFA Code of Practice – Key Principle D : Provide Resources				
D1 - Annual assessment whether level of resource invested to countering fraud and corruption is proportionate to the level of risk	<ul style="list-style-type: none"> Lincolnshire Counter Fraud Partnership Midlands Fraud Group Collaboration with and support to Internal Auditors at Assurance Lincolnshire Manage pool of Conduct Investigators 	Fraud advice across LCC services areas and to strategic partners.	Throughout 2018/19	Ongoing – 2018/19
D2 - The organisation utilises an appropriate mix of experienced and skilled staff		Management of Lincolnshire Authorities Whistleblowing Facility.	Throughout 2018/19	Ongoing - 2018/19
D3 - The organisation grants counter fraud staff unhindered access to its employees		Development of internal data analytics capability – system upgrade and training	Throughout 2018/19	Ongoing - 2018/19
D4 - The organisation has protocols in place to facilitate joint working and data and intelligence		Response to Serious Organised Crime Pilot Project across Lincolnshire	Throughout 2018/19	Ongoing - 2018/19



Counter Fraud Plan 2018/19

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Scheduling	Progress
sharing		<p>Use of pooled funding contributions from Lincolnshire's District Councils and Lincolnshire Police for provision of support to the Lincolnshire Counter Fraud Partnership</p> <p>Delivery of 3 Lincolnshire Counter Fraud Partnership meetings</p> <p>Training & induction of new staff to Counter Fraud & Investigations Team</p> <p>Resource swap with North East Lincolnshire Council (to facilitate independent audit review of Counter Fraud Arrangements).</p> <p>Engagement with national and regional best practice groups including co-ordination of Midland Fraud Group meetings</p>	<p>Throughout 2018/19</p> <p>Quarter 1, 3 & 4</p> <p>Quarter 1 - 2</p> <p>Quarter 3</p> <p>Throughout 2018/19</p>	<p>Ongoing - 2018/19</p> <p>Meetings held as scheduled</p> <p>Staff appointed and inducted in Quarter 2</p> <p>Scheduled for Quarter 3</p> <p>Ongoing - 2018/19</p>
115 Days (15%)				



Counter Fraud Plan 2018/19

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Scheduling	Progress
CIPFA Code of Practice – Key Principle E : Take Action				
E1 - The organisation has put in place a policy framework which supports the implementation of the Counter Fraud Strategy	<ul style="list-style-type: none"> • Participation in the National Fraud Initiative 2018/19 • Proactive counter fraud exercises • Data analysis • Investigations – whistleblowing referrals • Investigations – fraud • Applications of sanctions • Seeking redress • Advice • Promotion of counter fraud activity • Organisational learning • Reports to Audit Committee 	Data provision & analysis of data matches identified through National Fraud Initiative 2018/19	Quarter 1 & 2 - data provision Quarter 4 - investigate	Data submitted in Quarter 3
E2 - Plans and operations are aligned to the strategy		Proactive counter fraud exercises: <ul style="list-style-type: none"> • Procurement fraud (specific areas) • Cyber risks (deeper dive exercise to follow up internal audit's review of ICT security arrangements). 	Throughout 2018/19	Work completed in Quarter 1 Work commenced in Quarter 2
E3 - Making effective use of initiatives to detect and prevent fraud, such as data matching or intelligence sharing		<ul style="list-style-type: none"> • Follow up of investigations recommendations • Adult Social care 	Throughout 2018/19	Ongoing – 2018/19
E4 - Providing for independent assurance over fraud risk management, strategy and activities		Investigations arising from whistleblowing reports and frauds identified	Throughout 2018/19	Scheduled for Quarter 4
E5 - Report to the Governing Body at least annually on performance against the counter fraud strategy and the effectiveness of the strategy. Conclusions are featured within the Annual Governance report		Production of management reports and action plans to aid organizational learning – investigation outcomes and learning points	Throughout 2018/19	Ongoing – 2018/19
* Note also Specific Step – C3			Throughout 2018/9	Ongoing – 2018/19



Counter Fraud Plan 2018/19

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Scheduling	Progress
		Applications of sanctions – civil, disciplinary and criminal	Throughout 2018/19	Ongoing – 2018/19
		Seeking redress where successful prosecutions are achieved	Throughout 2018/19	Ongoing – 2018/19
		Promotion and publicity work through various media channels including fraud prevention measures	Throughout 2018/19	Ongoing – 2018/19
		Provision of advice on fraud risks and mitigating controls	Throughout 2018/19	Ongoing – 2018/19
465 Days (59%) - Including 240 days (30%) for investigations				

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Scheduling	Progress
Contingency	Emerging risks			
161 Days (20%)				

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